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Alberta ECONOMIC OUTLOOK

MAY, 1974

ALBERTA PROVINCIAL AFFAIRS

THE ALBERTA ECONOMY IN PERSPECTIVE

In recent economic forecasts a view continuously expressed is how the uncertainty present in the international market place makes it extremely difficult to forecast economic activity for 1974 and beyond. This uncertainty results from a series of events demonstrating how radically expectations are subject to change at any given moment. Although most observers would agree that 1973 was a year of substantial economic growth for most economies, it was also the year of significant restructuring of economic attitudes and the term "crisis" became popular.

The impact of such events as the international monetary crisis, the devaluation of the U. S. dollar, a world commodity crisis, and the "energy crisis" has considerably altered the short-term economic outlook of most industrial nations and directly contributed to the uncertainty which at present prevails.

Projecting for the long term, the international economies will likely exist in an environment where:

1. A shift in energy sources and the way in which they are used will lead to a **sustained capital investment boom**. Real investment will rise as a proportion of real spending and resources will tend to be switched from consumer goods production to producer goods. The investment boom will accentuate the inflationary bias of the developed economies by putting it into a high employment, high growth track.

2. The age structure of the population is changing in a manner which **increases demand for consumer goods**. The prime consumer group is found in the age bracket 25-39 when household formation is at its height. In the U. S., for example this age group can be expected to grow by almost 15 million during the 1970's as compared with 700,000 in the 1960's.

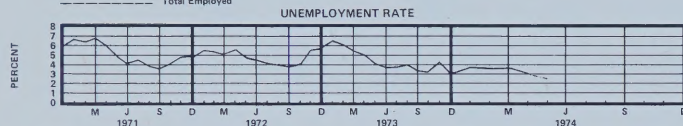
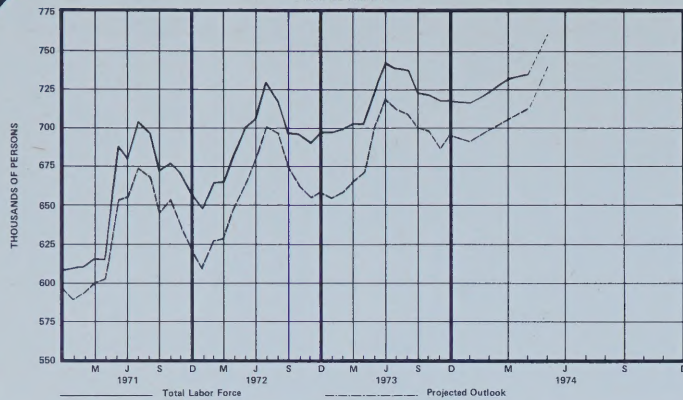
3. Economic growth can be expected to bring an ever growing proportion of the world's population into higher **income** ranges where they can emulate North America's material and energy intensive style of living and its protein rich diet. These changes will raise the amount of material and agricultural resources required to support a given world population. Pressure on agricultural and other raw materials will therefore increase at an accelerating rate.

4. It is estimated that by 1984 the OPEC countries will amass \$1.4 trillion from the oil consuming countries. How and where this enormous fund is used will largely determine the **world trade and monetary climates** over the next decade and beyond.

5. The production of standardised goods such as automobiles and refrigerators will gravitate to cheap labour areas in the world. This trend is already apparent with the industrialization of Brazil, Mexico, and Southern Europe. If Canada is to retain a significant manufacturing sector without resort to increased protection it must **shift production** to highly differentiated (specialized) products, preferably related to its resource base.

— continued on page 4

EMPLOYMENT



EMPLOYMENT

EMPLOYMENT	Actual Data				Forecast
	Apr./74	Mar./74	Apr./73	May/73	May/74
Labour force	734,000	731,000	700,000	729,000	760,000
Number employed	712,000	703,000	670,000	702,000	740,000
Number unemployed	22,000	28,000	30,000	27,000	20,000
Unemployment rate	3.0%	3.6%	4.3%	3.7%	2.6%

Comments: Through the first four months of 1974, total employment in Alberta has increased by an average of 40,000 over the same period in 1973. Prospects for June are for the usual considerable increases in both the labour force and total employed.

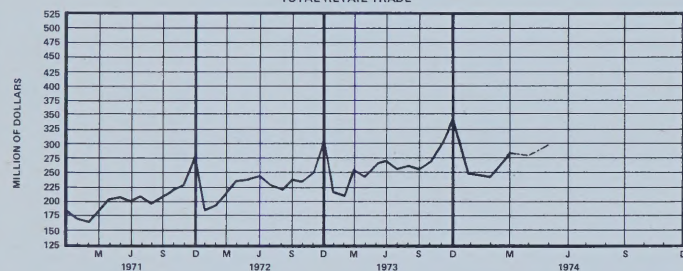
RETAIL TRADE

\$ Millions

Retail Trade	March		%	Jan. — Mar.		%	Forecast
	1973	1974	Change	1973	1974	Change	April 1974
Value of Retail Trade in Alberta	253.2	280.4	10.7	679.7	778.6	14.6	\$277

Comments: April's forecast is roughly 19 per cent higher than April, 1973. Prospects for May 1974 indicates a further increase to a value of approximately \$296 million.

TOTAL RETAIL TRADE



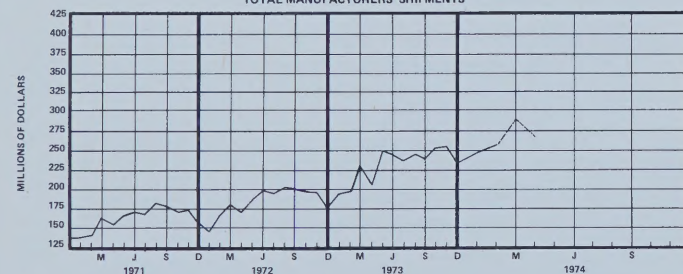
MANUFACTURING SHIPMENTS

\$ Millions

Manufacturing Shipments	February		%	Jan. — Feb.		%	Forecast
	1973	1974	Change	1972	1973	Change	March 1974
Total manufacturing shipments	201.6	259.1	+28.5	395.8	507.4	+28.2	287.0

Comments: The March forecast brings the first quarter 1974 forecast to \$794 million, 28.4% higher than the same period one year ago. Outlook for April is for a slight monthly decline to \$267 million, still 28 per cent ahead of April, 1973.

TOTAL MANUFACTURERS' SHIPMENTS

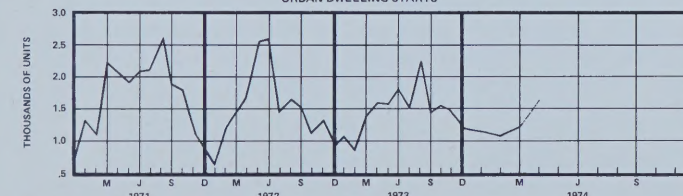


HOUSING

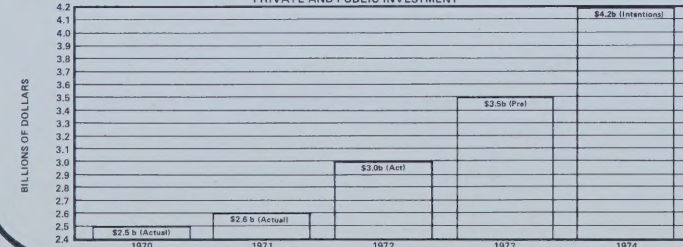
Urban Dwelling starts:	March		%	Jan. — Mar.		%	Forecast
	1973	1974	Change	1973	1974	Change	April 1974
Alberta total	1,339	1,213	- 9.4	3,203	3,431	+ 7.1	1,642
Calgary total	571	623	+ 9.1	1,449	1,728	+19.3	—
Edmonton total	611	455	- 25.5	1,293	1,334	+ 3.2	—

Comments: March's decline in urban dwelling starts was the first since last September. Prospects for the second quarter of 1974 are for about a 8 per cent increase over last year. Mortgage financing was reported as short in Calgary and Edmonton in April, with mortgage rates averaging about 11 per cent in both centres.

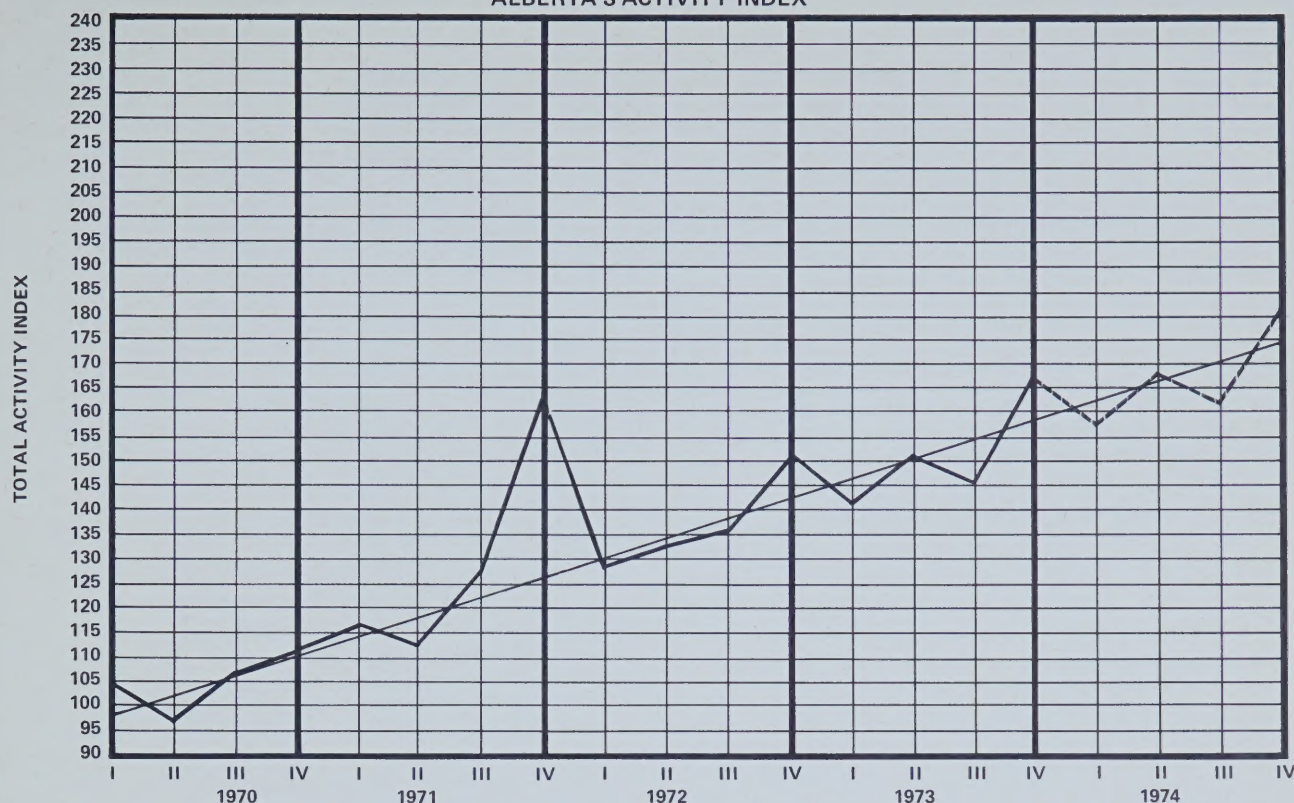
URBAN DWELLING STARTS



PRIVATE AND PUBLIC INVESTMENT



ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity		
	Total Year 1972 - 1971	Total Year 1973 - 1972	Year to Date 1974 - 1973
MANUFACTURING			
Slaughtered Meat Production	+ 3.3	- 2.2	- 6.0 (Jan. - Mar.)
Slaughtered Meat Exported	+ 5.3	- 0.6	+ .22 (Jan. - Mar.)
Refinery Production	+21.4	+10.0	+15.5 (Jan. - Feb.)
Cement Production	+ 3.5	+ 7.8	- 8.0 (Jan. - Mar.)
MINING			
Oil Production	+20.8	+19.6	+ .69 (Jan. - Mar.)
Gas Production	+16.8	+ 7.3	+ 1.3 (Jan. - Feb.)
Footage Drilled	+21.9	+28.3	+ 1.5 (Jan. - Feb.)
Number of Wells Drilled	+13.1	+33.2	+54.2 (Jan. - Feb.)
Coal Production	+14.1	+ 2.9	+ 8.2 (Jan. - Feb.)
CONSTRUCTION			
Urban Dwelling Starts	- 15.4	- 7.2	+ 7.1 (Jan. - Mar.)
Rigid Insulation Board Shipments to Alberta	+ 5.9	- 1.7	+ 2.7 (Jan. - Mar.)
Value of Alberta Building Permits	+12.1	+20.0	+31.5 (Jan. - Mar.)
AGRICULTURE			
Grain Shipments	- 2.9	- 16.4	+13.5 (Jan. - Apr.)
Livestock Marketed	- 1.6	- 6.4	N/A (Jan.)
Farm Cash Receipts	+14.0	+32.3	+75.0 (Jan. - Mar.)
FORESTRY			
Lumber Production	+16.0	+33.6	+ 1.2 (Jan. - Mar.)
Lumber Sales	+ 5.7	+17.5	- 22.0 (Jan. - Mar.)
Lumber Exports	+24.7	+ 2.5	- 53.0 (Jan. - Mar.)
Pulpwood Production	+47.8	+46.6	+117.9 (Jan. - Mar.)

UNEMPLOYMENT RATE (unadjusted)	APRIL 1974	MARCH 1974	APRIL 1973	MARCH 1973
	6.0	6.4	6.3	6.8
Canada	3.0	3.8	4.3	5.1
Alberta				
CONSUMER PRICE INDEX (1961 = 100)				
Calgary-Edmonton	151.3	150.3	139.2	138.1

ECONOMIC OUTLOOK FOR CANADA

1. **Economic Growth in Canada.** It is expected that for 1974 the real growth in G.N.P. will be lower than for 1973. Projection to 1980 suggests that economic growth will steady out at about 4-5%.
2. **Inflation.** The Number One Problem. Internally inflation continues to cause concern because of its impact on labour disputes, savings habits and capital markets. It is expected that inflation will continue at a high level for 1974 possibly in the order of 7% and thereafter stabilize to around 5% to 1980.
3. **Demand for Consumer Goods.** With a general aging of the population and healthy rates of income growth, it is expected that the relatively high level of consumer demand will continue.
4. **Balance of Payments.** The strong demand for raw materials. (Price rise of 16.5% for 1973) is causing the Canadian currency to increase in value, putting Canadian manufacturing at a disadvantage in world trade.
5. **Unemployment.** Unemployment levels will remain in the 5% range from 1974-1980 because of:
 - (a) Continued increases in the participation rates.
 - (b) Continued high level of entry of young people into the labour force.

ALBERTA'S INVESTMENT OUTLOOK TO 1978

With reference to Alberta's economic prospects the Department of Industry and Commerce undertook a major investigation of investment intentions to 1978. In the five years to the end of 1978 total investment, measured in constant 1961 dollars, in Alberta will probably increase at an average annual rate of about 8 per cent. This is somewhat higher than the 5 per cent average annual growth that has occurred during the past decade.

The table below presents the predicted percentage changes in total investment in each of the years in the forecast period. It shows that the largest increase in investment will be in 1974. In 1975 it will grow further, but at a reduced rate. Investment will expand further in 1976, but in 1977 there will be little change. Expansion is expected to resume once again in 1978.

Rates of Change in Total Investment
(constant 1961 \$)

Year	1974	1975	1976	1977	1978
Percentage Change	+20%	+6%	+11%	no change	+5%

Investment in the primary sector in Alberta will increase at an average annual rate of about 11 per cent from

the end of 1973 to the end of 1978. The comparatively large increase in investment in this sector is due mainly to the construction of oil sands extraction plants and investment in the coal mining industry.

Looking at individual years, the largest increase, 35 per cent, is expected this year, followed by increases of 8 per cent and 17 per cent in 1975 and 1976, respectively. From a peak in 1976 it will probably decline slightly in 1977 and then expand again in 1978.

Investment in manufacturing in Alberta, is also expected to peak in 1976. To the end of 1976 real investment in this sector will increase at an average annual rate of 19 per cent, the largest increase being in 1975 and the next largest in 1976. About three quarters of this investment will be in the construction of various types of petrochemical plants in Alberta.

Investment in the service sector of Alberta's economy will not grow as fast as investment in the other two sectors, though it will expand more rapidly than it has in the past. An average annual growth rate of about 6 per cent is expected from the end of 1973 to the end of 1978. The growth of investment in this sector will be steadier than in the other two sectors, with the peak being in 1978.

In summary, investment in Alberta's economy will grow at rates significantly higher than the historical average from the beginning of 1974 to the end of 1976. Thereafter, it should level in 1977 and then return to historically more normal growth in 1978.

ALBERTA — BUSINESS OUTLOOK

Richard M. Thomson, President of the Toronto Dominion Bank, estimates that Canada's total capital investment during the 1973 to 1980 period will grow by over \$288 billion, or at 11.3 per cent per year. Business capital investment during this same period will grow by over \$172 billion, or the equivalent of 11.8 per cent per year. Social capital investment will also grow strongly, by over \$114 billion, or at 10.4 per cent annually. Mr. Thomson feels however, that this expansion in investment activity, particularly in the housing and energy sectors, appears to be well within Canada's financial capability.

Total investment spending in the year 1980 will be about \$50 billion and Canada should, with a slight increase in the national savings rate, be able to finance close to the entire amount through personal, corporate, and public savings. By 1980 the Canadian economy will be producing goods and services at an annual rate of over \$200 billion, and generating savings at annual rates of over \$50 billion. In 1973, with a Gross National Product of about \$117 billion, total domestically-generated savings financed virtually all of a \$26 billion investment programme.

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